# Money Matters!

A Publication of the Delaware Community Reinvestment Action Council, Inc.

Don't Let The Great American Dream Become Your Greatest Nightmare.



Your Fair Lending Advocate in Delaware!

We are all about fair and equitable access to mainstream financial services Our handbooks are also available on www.dcrac.org/Money\_Matters!.htm

**Delaware CRA** Council, Inc.

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STANDARDS FOR **EXCELLENCE** 

# Channel 28

- New Castle
- 3 to 4 pm
- 1st Sunday

# Channel 64

- Kent
- 8 to 9 pm
- 3rd Wednesday

# Channel 24

- Sussex
- 7 to 8 pm
- 2nd Tuesday

• 107.9 fm in Millsboro, DE www.wrbg1079fm.com Radio

Radio

• Saturdays 10 am to noon

Radio

- ¡Fuerza Financiera! Last Wednesday 4 to 5 pm
- TV on Radio last Wednesday 5 to 6 pm

Designed by Christopher Mears for DCRAC, Inc

OUR MISSION: To ensure equal access to credit and capital for the under-served populations and communities throughout Delaware through Education, Outreach, Advocacy, and Legislation.

Founded

Adjustable Rate Mortgages (ARMs) and Hybrid ARMs. More than 4 million homeowners will lose their homes in 2007 and 2008!

- 1. Most common ARMs adjust after two years.
- Hybrid ARMs start as fixed rate mortgages and then adjust after an initial period.
- 3. When the adjustment occurs, you are in for a payment shock.
  - a. Most people do not know how to estimate a mortgage payment if the rates rise by 2%.
  - If you took out a 3-year hybrid ARM in January 2003 at 4.26% on a \$193,500 mortgage your payment was \$954/month.
  - c. When adjusted at 5.30% in January 2006, your payment is \$1,074.
  - d. Can your budget handle \$120/month extra?

Interest only mortgages-allow borrowers to defer paying back the principal for 1, 3, 5, or 10 years. If you were paying interest only for the first 10 years, you must pay back the principal within the next 20 years. Your monthly payments will go up.

 Young adults, Latinos, lower-income and less educated consumers are most attracted to and least informed about these mortgages.

Monthly Loan Payments for different types of \$200,000 mortgages					
Interest Rate	30-year fixed	5/1 ARM	5/1 I/O ARM	Option ARM	
5%	1104	1074	875	643	
6.5%	1104	1244	1350	1472	
Monthly increase	0	170	475	829	

2,510 loans in Delaware were in foreclosure at the end of the second quarter of 2007 compared to 1,315 loans at the same time in 2006.

# 1-888-995-HOPE--the homeowner's hotline.

See page 3 for Housing Counselor's telephone numbers.

#### Loan modification

Your housing counselor will most likely be able to help you negotiate a loan modification. This is the more workable solution for most homeowners.

Delaware Emergency Mortgage Assistance program Not all will qualify for this loan. There is not enough money in the pool. Seek housing counseling.

#### A proposal for a rate freeze

Program is voluntary.

Rate freezes for five years if:

- 1. You can afford your mortgages today but could not at the higher rate.
- 2. Took out the subprime loan between January 2005 and July 31 of 2007 and
- 3. Rate is scheduled to rise between Jan. 1, 2008 and July 31, 2010

- 4. The ARM has an initial period of fixed rate of 36 months or less.
- 5. You are current on payments under the introductory rate.
- 6. The loan has been sold to investors in a securitized pool of mortgages
- 7. Your credit score is below 660 and the score has not risen by 10% since the loan was sold.
- 8. You live in the home which is mortgaged.
- 9. You face a payment hike of more than 10%.
- 10. You must ask for help at 888-995-HOPE.

## **Reverse Mortgages**

If you are 62 and older, you may want to explore this option. We suggest that this be your last resort.

A Stitch in time saves Nine. Call in time, not the day of the Sheriff sale!

Any help?

# Housing counseling agency

Non-profit free advice.

#### The real estate sales contract

- Offer + refundable deposit.
- Once accepted, legally binding.

#### The Home inspection

Make offer contingent on home inspection.

# The Mortgage application

**READ Truth-in-Lending Good** Faith Estimate.

# Loan Processing

Orders an appraisal, credit report, and sends all verifications.

# Loan Underwriting

Final decision on loan request.

#### The settlement

- Formalizes transfer of ownership and title to the buyer.
- Formalizes agreement between borrower and lender.
- KNOW and UNDERSTAND the papers you are signing.

# **CAUTION**

It is a buyer beware world. Housing Counselors help you understand what you are doing.

FIRST STATE COMMUNITY ACTION AGENCY 302-856-7761

> HOCKESSIN COMMUNITY CENTER 302-239-2363

HOUSING OPPORTUNITIES (HOND) 302-429-0794

INTERFAITH COMMUNITY HOUSING 302-995-7428

> NCALL RESEARCH, INC. 302-678-9400

NEIGHBORHOOD HOUSE 302-652-3928

WESTEND NEIGHBORHOOD HOUSE 302-658-4171

YWCA HOMEOWNERSHIP EDUCATION 302-224-4060 x 200

# **Habitat for Humanity**

**New Castle** 302-652-0365 Kent 302-678-5118 Sussex 302-855-1153

#### Avoid a lender who:

- Asks you to give false information.
- Pressures you.
- Asks you to sign blank forms.

#### Questions to ask a lender

- What is the APR?
- What are the terms of the loan?
- What does the monthly payment include?
- Is there a balloon payment?
- Are there prepayment penalties?

#### At Closing

- BEFORE YOU SIGN, ask for an explanation for terms that you do not understand.
- GET A COPY of all papers you signed.

#### **After Closing**

- **Right to rescind:** If your loan is secured by your primary residence, you have a three business day cooling off period.
- Send written notice to exercise this right.

**Truth-in-Lending Act under Regulation Z:** 

When you borrow more than \$25,000 or your loan is secured by your personal residence, the bank must disclose the Annual Percentage Rate (APR) plus amount paid in finance charges.

A terribly wrong TILA extends your right to rescind by three-years.

What is your interest rate?

Is it fixed or adjustable?

Is there a prepayment penalty?

Is there a balloon payment?

Does the monthly payment include insur-

ance and taxes?

Will your payments change? Why? How? By how much?

If you are in trouble, call a housing counselor. Ask if you qualify for DEMAP program or Reverse Mortgage. Contact your lender. Keep good notes.

"There is no doubt that when several risky features are combined in a single loan, the total risk is greater than the sum of its parts." John C. Dugan, Comptroller of the Currency, before the OCC Credit Risk Conference, Atlanta, Georgia, October 27, 2005

#### www.dcrac.org

# Ability to repay

- Do you have a stable income?
- We recommend that you save 5% of the sale price.
- We also recommend you have 2 months of your mortgage payment before you go to closing.
- Where do you get that money? **Delawareans Save**--a matched savings program.
  - You must attend an informational session offered by an IDA provider/Housing counselor.
  - Complete a financial fitness program and open an IDA saving account.
  - The maximum that you can save is \$1,500 per person or \$3,000 per household.
  - At the end of your savings, you will get \$3,750 per person or \$7,500 per household.
  - The minimum you must save each month is \$25.
  - The maximum you can save each month is \$250.
  - You must take at least six months to save.
  - You can take 36 months or 3 years to save.

# **Downpayment & Settlement Help** programs

City of Wilmington.

- New Castle County.
- Delaware State Housing Authority.
- Your housing counselor knows about these and many more programs.

#### Debt to income ratio

- Your total debt/total gross monthly income should not exceed 38%.
- We recommend a debt to income ratio below 33%.

# Debt to housing ratio

Your total housing (principal, interest, taxes, insurance)/total gross monthly income should not exceed 33%.

# Willingness to repay

- Credit report.
- Credit Score. We recommend a score above 723.
- Credit Builder.

#### **Collateral**

- The appraised value of your home.
- We recommend that you borrow less than 95% of the sale price.

Interest Rate	15 year loan	30 year loan
5%	7.91	5.37
5.5%	8.17	5.68
6%	8.44	6.00
6.5%	8.71	6.32
7%	8.99	6.65
7.5%	9.27	6.99
8%	9.56	7.34
8.5%	9.85	7.69
9%	10.14	8.05
9.5%	10.44	8.41
10%	10.75	8.77

Depending upon your current budget (and projected income) you can decide exactly how much you want your mortgage payments to be. This forms the basis of your home buying plan.

#### How to use the table

If you are borrowing \$125,000 for an interest rate of 8% for 15 years then your principal and interest payment will be:

125 \* 9.56 = \$1,195.00/month

If you are borrowing \$125,000 for an interest rate of 6.5% for 30 years then your principal and interest payment will be:

125 \* 6.32 = \$790.00/month

In addition, your payments will include:

- 1/12th of property taxes.
- 1/12th of property insurance.

Our recommendation in the face of rising costs of everything is that your total housing payment/ gross monthly income should be about 30%.

Calculate payments